

Management Discussion & Analysis

When Frank Nelson tells fond Navy stories, he transports you back to 1942.

“I can still see my shipmates, just as they were. Courageous,” he said. Frank

served three years in the South Pacific on the USS Foote. This famed battleship

is one reason America won. “We got credit for sinking a Japanese destroyer.

Radar was our trump card – they couldn’t see us at night!” Yet, the Solomons

Campaign was cut short when a Japanese torpedo hit the Foote’s fantail –

destroying 55 feet and killing 19 gallant men. “I watched my buddies’ faces

as they died,” lamented Frank. The blow, while nearly fatal, didn’t destroy the

Foote. A fast-acting fleet got her to Purvis Bay for repairs – and she and her crew

returned to the Pacific in fighting trim to join the Philippines assault. Today, Frank’s active

in the Foote Association and enjoys shipping off to the racetrack now and then. “Our ship

reunion is this November in Orlando: 15 out of 300 are still alive.” Which means many more

can hear firsthand battle tales

from ‘the Greatest Generation.’



The Liberty to Preserve

For more than two centuries, our nation has been a beacon of liberty for the civilized world. President Ronald Reagan even called America “a shining city on a hill.” Truly, our service men and women have played a vital role in keeping America a bright source of freedom around the globe. Through hundreds of campaigns and peacekeeping missions – not to mention in times of peace – our troops have been there to defend democracy.

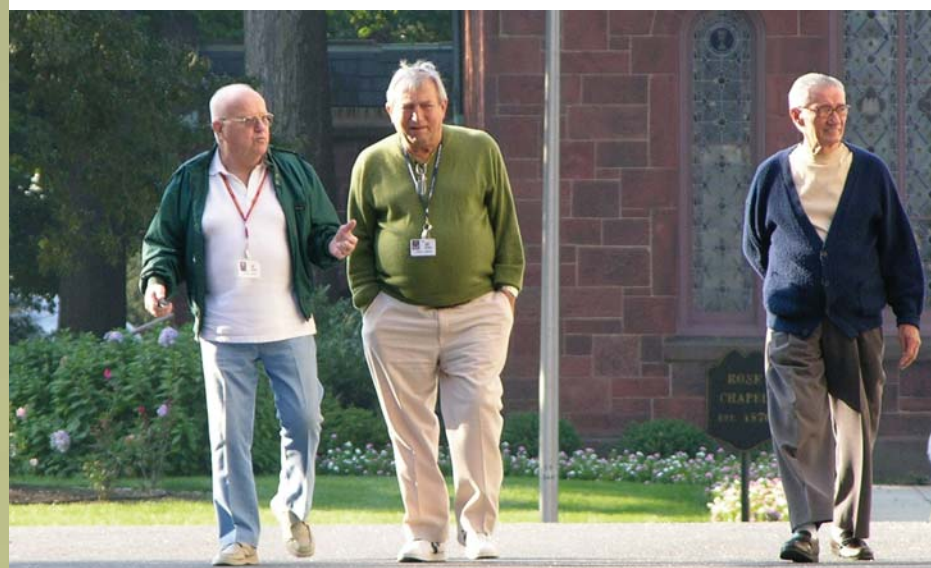
Why, at this very moment, several military campaigns are promoting liberty abroad – creating a new generation of Veterans. All of which are paying into the AFRH Trust Fund via monthly payroll deductions, plus fines and forfeitures. This makes honoring the original Promise to care for our retired military especially vital. Because one day, our current enlisted may be calling on us to safeguard them.

The Management's Discussion & Analysis is a broad overview of the current status of the AFRH, as introduced by the Chief Operating Officer (COO). It is also an analysis of how we will propel the Home into the future. This section is required as supplementary information for the financial statements. As you will see, our COO and dedicated staff continue to offer the residents exceptional support and care. In marching forward, we will be spearheading a variety of innovative new programs for yesterday's legends ... and tomorrow's heroes.

Message from the Chief Operating Officer

The Will to Achieve

I am pleased to present the AFRH “Performance and Accountability Report” for FY06. It features our exciting developments and unique challenges over the past year. As fate would have it, Hurricane Katrina created both. When she forced us to evacuate our Gulfport home, we mobilized to survive. Soon, overcoming the challenges to endure shifted into seeking new ways to thrive. All of which has made the past year partly anxious, sometimes joyous and mostly fruitful.



From Surviving to Thriving

Throughout 2006, we demonstrated our resolve to uphold the Promise Congress made in 1811 to care for our retired Veterans. Recovering from the Gulfport closure and absorbing the uprooted residents in Washington was met with swift, decisive action. We provided them with shelter, necessities and security in the face of uncertainty. Plus our warm reception in DC was reassuring in the

midst of a major life disruption ... especially when you consider their advanced years. In the end, many Gulfport residents truly felt they had come “home.”

To accommodate the extra residents, we reopened a building for temporary housing, enhanced existing services, expanded transportation and added a mobile dental unit. For all those those in need of memory support, we created an Adult Day Care Center with Katrina Supplemental Funds. Then, we designed an Assisted Living area and Memory Support unit to be built soon. Given our dedicated staff and proficient management, these efforts literally stemmed the tide of disaster.

The Plans for Progress

Soon after, Congress requested a Gulfport action strategy. We outlined five viable options in a Special Report in February 2006. Also, we were asked to participate in an Options Review Committee to submit recommendations to Congress. This board included members of the VA and DoD, plus the President of the Resident Advisory Council (a former Gulfport resident). Then in May, management held an offsite to reflect on the strenuous pace of the prior year. This helped refocus our efforts on what was becoming a new configuration at AFRH. At last, we altered our course – and ever since, the Home has been at full steam ahead.

At year's end, we saw great progress on our Strategic Goals and E-Gov. Also, we moved forward on our Washington Master Plan, which offers the campus vibrant change and promises to raise sufficient capital for future generations of Veterans. Thanks to the support of Congress and its Supplementals, we can look forward to deploying our Gulfport Master Plan and rebuilding the campus.

Achievements in 2006

This Report presents complete, reliable information that holds our

programs and finances to the highest standards of accountability. We are pleased to have earned JCAHO's Gold Seal of Approval™. Further, we responded with positive actions to the Triennial Inspection by the Office of the Air Force Inspector General.

To build an AFRH of the Future, we focused on:

- 1) Recovering from the impact of Hurricane Katrina
- 2) Consolidating all services to the DC campus
- 3) Preparing for a brighter, bolder future, and
- 4) Modernizing to leverage the advantages of E-Gov and the Internet

Creating Resident Value

In all we do, we are mindful to manage the Veterans' resources in a responsible and effective manner. This Report shows how we are giving them the best possible service for a prosperous life. Our well-rounded offerings satisfy their needs for stimulating activities and reliable healthcare. Meanwhile, our unique atmosphere of military camaraderie offers them tremendous support. Truly, our Veterans have found their peace – and now is their Time to Thrive.

In closing, I am happy to report the AFRH is thriving, remains financially independent and faces the future with renewed vigor. We have an impressive record of achievement in safeguarding the men and women who so bravely defended our freedoms. I am proud of our performance – and I hope our fellow-Americans are proud of this organization and the Veterans who call it home.

Sincerely,

Timothy C. Cox
Chief Operating Officer (COO)
November 15, 2006

“

I'm happy to report the AFRH is thriving, remains financially independent and faces the future with renewed vigor.

”

—Timothy C. Cox, COO

The Mission to Promote

Today, we continue to provide shelter and care for eligible residents, as they grow old. This demonstrates to today's soldiers – and tomorrow's Veterans – that their service and sacrifices won't be forgotten. Just as our brave young men and women helped save the world from fascism in the 20th Century, today's active duty can fight for and preserve our way of life – knowing their country will repay them for their dedicated service.

And for good reason. Currently, the pool of eligible residents is growing fast. Many Korean and Vietnam War Veterans are rapidly approaching retirement age. Yet, this new generation has much different needs than those of a generation ago. So it is essential that we map out a viable business plan to fund those changing needs. Then, we'll truly fulfill the Promise Congress made nearly two centuries ago. And we will go from an organization that's merely surviving...to one that's truly thriving.

Now, more than ever, the AFRH and Congress are bound to honor that Promise, the Home's heritage and the fine tradition of the US military. Our ultimate goal is to build upon that legacy – and provide even greater service to our nation's heroes in the future. This includes enhanced technology, improved healthcare and modern amenities that rival those of private retirement homes.

Corporate Philosophy

Over the years, the original Promise has been embodied in new ways. Our current Vision and Mission are strongly rooted in the Home's heritage – yet they also incorporate modern philosophies in senior care. What's more, the AFRH Guiding Principles were crafted to preserve the Home's roots, while also serving as a guide to help us achieve the Mission. Ultimately, these smart strategic tools will help us meet the needs of a new generation of Veterans.

Vision

To actively nurture the Health and Wellness Philosophy of Aging while providing our nation's heroes with a continuum of Life Care Services in a community setting.

Mission

To fulfill our nation's Promise to its Veterans by providing a premier retirement community with exceptional residential care and extensive support services.

Guiding Principles

- Establish Accountability
- Inspire Excellence
- Maintain Integrity
- Honor Heritage
- Maximize Workforce
- Serve Customers



Strategic Plan

The Armed Forces Retirement Home is a premier retirement community and continuing care provider for eligible US Armed Forces Veterans. We proudly serve them with the same level of honor and commitment that they demonstrated in serving our country. To fulfill our mission, we have defined our Strategic Goals across five major areas:

Strategic Goals

Financial Growth	Exceptional Service	Improved Processes	Learning & Growth	Culture of Integrity
Create financial net growth & stability for the AFRH Trust Fund.	Enhance the overall AFRH experience to enrich the quality of residents' lives.	Modernize internal operations to maximize & leverage resources across AFRH.	Promote personal excellence & professional growth for all personnel.	Inspire commitment to the AFRH Guiding Principles through mutual respect

The AFRH Strategic Plan was updated in 2006 to reflect our renewed dedication to the AFRH Guiding Principles. And it is available online at www.afrh.gov. Our five Strategic Goals help us chart a course to a successful future. They also serve as the foundation for specific performance objectives – which are connected to initiatives in the President's Management Agenda (PMA).

The AFRH heeds the guidance in the PMA and we continue to make significant progress on each of these five Goals. The Home has not officially submitted for evaluation. However, every year since FY 2004, we have conducted a self-assessment as of September 30th.

As a small Federal agency, AFRH has focused on one initiative per year:

- 2004: we worked diligently on Competitive Sourcing
- 2005: we spearheaded Strategic Management of Human Capital & Improved Financial Performance
- 2006: we focused on Expanded Electronic Government

In the Performance Section, we discuss Strategic Goals in detail.

[From Public Law] –
24 US Code, Section 411
Establishment of Armed Forces Retirement Home

(b) Purpose – The purpose of the Retirement Home is to provide, through the Armed Forces Retirement Home-Washington and the Armed Forces Retirement Home-Gulfport, residences and related services for certain retired and former members of the Armed Forces.



"Life here is beautiful. The living conditions are great and everything is at our disposal. Even the PX here."

—Maurice Taylor
(Ret. Army Sergeant, 20 years)

The Structure to Succeed

The AFRH is an independent establishment of the Executive Branch of the Federal government. Ours is a unique Federal agency that closely resembles a private sector Continuing Care Retirement Community (CCRC). We serve enlisted and Warrant Officer retirees, plus eligible Veterans.

The Home is financially independent and wholly funded from the AFRH Trust Fund. Our COO is subject to the authority, direction and control of the Secretary of Defense, to the Under Secretary of Defense (Personnel & Readiness).

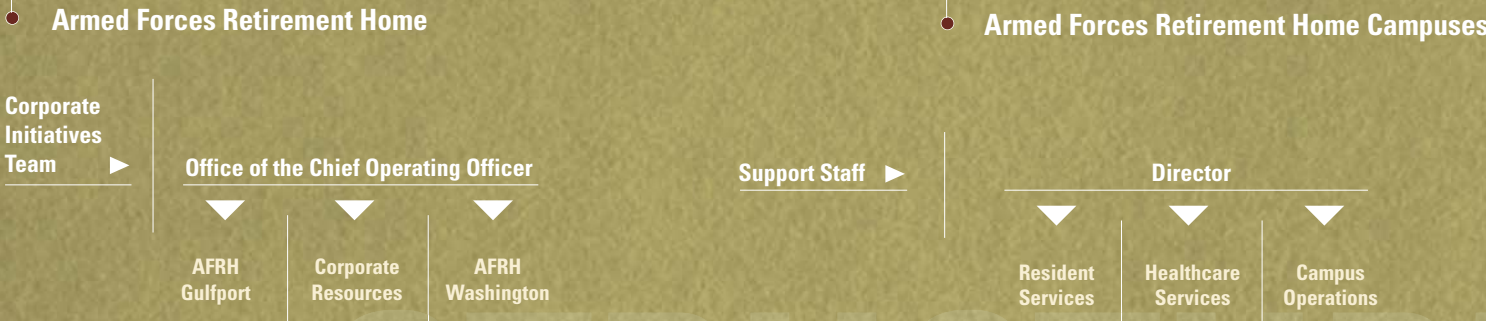
Our core business is to operate a premier retirement community with exceptional

Operational Background

In 1992, the Armed Services deemed that operating retirement communities was not “mission-critical.” So, the two Homes were realigned through the Armed Forces Retirement Home Act (Public Law 101-510). This Act combined the US Soldiers’ and Airmen’s Home with the US Naval Home under one Federal agency, while retaining two distinct locations.

In September 2002, the DoD hired a COO with private industry experience to facilitate our evolution. At the time, AFRH had two distinct campuses that lacked a single set of standards,

The “One Model” approach serves both campuses:



The COO is responsible for the overall direction, operation and management of both campuses

resident quarters, advanced healthcare, and essential social services. The Home provides a host of recreational, entertainment and creative programs rooted in the health and wellness philosophy. For our residents, it all means an enjoyable, well-rounded retirement.

policies and procedures to operate as a unified agency. Therefore, the new COO proposed a “One Model” standard operating environment. Since its inception, this new “One Model” has enhanced accountability and promoted the highest quality service to our residents.

The Ability to Focus

The “One Model” was embodied in the AFRH strategic goals and objectives. In recent years, we’ve identified our “core competencies.” They have helped us decide whether or not to build internal capacities or to seek competitive sourcing for certain functions. Also, AFRH has integrated new systems to reduce duplication of effort, error and uneven workload agency-wide. The transition years for these systems were 2004 and 2005.

The new “One Model” was put to the test by multiple outside examiners who verified our progress in FY05. The Joint Commission on Accreditation of Healthcare Organizations (JCAHO) conducted a survey of Gulfport in March 2005 and of Washington in October 2005 – and awarded both campuses its Gold Seal of Approval’.

Forward Progress

Positive outside verifications have also affirmed the strength of the “One Model” as a driving force in evolving the Home. Ever since its inception, we have shown great progress – staying on track with objectives through many recent changes. The most dramatic change came in August 2005, when Hurricane Katrina forced the closing of our Gulfport campus. Even in the whirlwind of this cataclysmic event, the “One Model” provided us with a clear path in consolidating our services.

Both campuses have the same management structure:

Support Staff	Resident Services	Healthcare Services	Campus Operations
*Public Affairs Office	Admissions	Nursing	Facility Maintenance
*Business Center	Leisure and Wellness	Social Services	Transportation
Safety Office	Volunteer Coordination	Community Health	Logistics
	Security	Dental Clinic	Grounds
	Dining Services	Optometry Clinic	Utilities
	Religious Activities	Nutrition	Custodial Services
		Medical records	
		Pharmacy	
		Assisted Living	
		Long Term Care	
		Memory Support	

*These functions were realigned to Agency level during FY06.



During the cleanup of Gulfport, The “One Model” helped us consolidate resident services in DC and continue to forge ahead.

The Homes to Nurture

Scenic Gulfport, MS

This scenic campus spans 49 acres of ocean-front property on the Gulf of Mexico. Many of the residents and visitors relish the temperate climate and friendliness of the south. This Home was originally established in Philadelphia as the US Naval Asylum in 1833. After 143 years, it was relocated to Gulfport in 1976 – where it became a home for all of the Armed Forces. As such, this Home remains the oldest Veterans retirement home in the US.

STATUS: Rebuild Plan Underway – Temporarily Closed

Before August 2005, AFRH-Gulfport had a capacity of 609 rooms in a multi-use 11-story tower. When the storm struck, our staff mobilized to evacuate nearly the entire resident population within 24 hours after the storm had passed. Two days later, our Mississippi residents were welcomed by a battalion of supportive residents, military personnel and neighborhood volunteers at the main campus in Washington. Many tears were shed on that day ... many in sadness, yet many more in heartfelt gratitude.

Historic Washington, DC

When visitors enter the Washington campus for the first time, they're stunned by its wooded acreage, rolling hills, majestic views, tranquil ponds and historic landmarks. In a warm country setting, the Home is just minutes from the US Capitol, White House and other Washington landmarks. This tranquil environment has served as the temporary residence of several US Presidents, including the summer home of Abraham Lincoln. Four original buildings still stand on 2.3 acres and are listed as National Historic Landmarks. Today, the campus spans 272 lush acres with over 100 unique buildings and structures – including the "National Landmark District."

STATUS: Residents Consolidated – Open for Business

After Katrina, our staff was charged with the monumental task of transporting the Gulfport residents and caring for them in DC. Through Public Law 109-62 (the second Katrina Supplemental funding), Congress supplied \$6 million to aid AFRH in this effort. With this money, we purchased supplies, furniture and contractor support to reopen the Pipes Building and house the relocated residents in September 2005. A year later, we closed Pipes because its aging infrastructure is too expensive to maintain. As a result, the current capacity in Washington is 1,323 rooms in three residential buildings: Scott, Sheridan, and LaGarde.

Forging Ahead

Our greatest challenge is to remain financially independent. We must develop innovative ways to increase admissions in Washington – our sole campus for now – in order to fulfill our fiscal obligations. At present, the AFRH is working hard to rejuvenate its infrastructure and reenergize its resident programs. In FY 2006, we will refocus our efforts toward revitalizing the Home's financial situation so we may continue our mission.

Supplementals

The third Katrina Supplemental funding (Public Law 109-148) included \$20.8 million to sustain relocation efforts and fund the necessary expenses. This supplemental funding also allocated \$45 million for planning and repair efforts in Gulfport and to begin restoring the facility to full occupancy. At the request of Congress (per House Report 109-359), AFRH created and furnished a Special Report to Congress that presented several options for consideration.

With the supplemental funding we received from Congress, the Home is now strategically poised to maintain and expand its fundamental role of serving our nation's eligible military personnel. To do this, AFRH must first build the "AFRH of the Future." As we prepare for a revival in the 21st century, we are focused on leveraging mandated government healthcare programs (Tricare, Medicare and Prescription Drugs). Yet, our niche will be our Guiding Principle – promoting the Home's military heritage. Here, residents will find camaraderie and enjoyment being "among their own."

Congress has appropriated funds for the replacement of the damaged facility in Gulfport. Over the next five years, the precise configuration of the campus footprint will emerge.

Summary

In short, we must live up to the original Promise to care for our Veterans – and grow the Trust Fund that supports them. The most viable way is for AFRH to evolve is to directly compete with private retirement homes. Together, the AFRH residents and staff can advance into the future ... our Time to Thrive.

Doris Jones takes a cruise on her three-wheeler. She's a former Army Master Sergeant and enjoys bicycling to keep her legs strong. If you're respectful, she may just give you a lift.



Our golf course is an oasis in the heart of Washington. It features 9 holes, many mature trees, geese, swans and the occasional deer.



"The holidays helped renew our tender spirits and our faith in the future. For many former Gulfport residents, this special time symbolized a new beginning in life."

— Ben Laub,
Director of Washington
(with resident Viola Grubb)

The Defenders to Support

The AFRH is more than a group of buildings that house military Veterans. The Home is a dynamic, thriving community of men and women who have served our country with steadfast devotion. Over the years, tens of thousands of Veteran soldiers, sailors, airmen, Coast Guard and Marines have lived on these grounds. Each soul has a unique story – filled with sentimental anecdotes and fascinating battle memories.

A scenic stroll across our campus often elicits a spontaneous conversation with one of our engaging Veterans. Many enjoy reliving their glory days while serving Uncle Sam. Yet, many more are guarded ... often reluctant to speak of the more painful events that took place in The War.



Providing a Safe Haven

Regardless of their age, background or Branch of service, all of our residents desire a fulfilling retirement – filled with meaning and purpose in life. So to meet their needs, we strive to enrich their daily routines ... to challenge their minds and bodies ... and to provide companionship and camaraderie in a supportive community setting.

We offer a variety of programs to promote the residents' overall health and wellness. This includes social, recreational and occupational activities for nearly any interest. For instance, our residents routinely enjoy dances, movie nights and trips to the Smithsonian. Avid golfers take advantage of our sprawling 9-hole golf course, while others compete in the Bowling Alley each Thursday afternoon. Many more residents indulge their creative side at

our Wood and Ceramics Shop. And a legion of our residents frequents the Library every day.

All the Necessities

Our residents have access to daily necessities – which is why the DC campus is literally “a city within a city.” It has everything a resident could need for daily living: banks, chapels, a post office, PX, laundry facilities, a barber shop, beauty salon, several dining halls, 24-hour security staff, plus private rooms with cable TV and telephones. Not to mention scenic, sprawling grounds for walking, reflection and solace.

As we advance into the future, we'll continue to develop innovative services for our residents. Our final charge is to make this phase of their lives the most vibrant and enjoyable ever.

Eligibility

Any person is eligible to become an AFRH resident if their active duty service in the military was at least 50 percent enlisted, Warrant Officer or Limited Duty Officer* Further, a person must also:

- Have 20 or more years of active duty service and be at least 60 years old, or
- Be unable to earn a livelihood due to a service-connected disability, or
- Be unable to earn a livelihood due to non service-connected disability, yet served in a war theater or received hostile fire pay, or
- Have served in a women's component of the Services before June 12, 1948

**in accordance with US Code 24, Section 412 (24USC412) and determined under rules prescribed by the COO*



Veteran Daniel Funk greets British officers at the WWII Memorial in a special wreath-laying ceremony organized by the British Embassy.

Growth Potential

We are driven to provide the best service to our residents. This is only possible through vigilant, widespread efforts to increase revenue and reduce costs. Likewise, our fiduciary responsibility and fiscal accountability helps maximize our available resources – further ensuring the best interests of our residents and stakeholders. Yet, the key component of the Home's basic financial strategy is to realize significant net growth and stability in the Trust Fund. This will help us continue to raise our high standards to even greater heights.

The Hurricane to Overcome

Katrina Impact

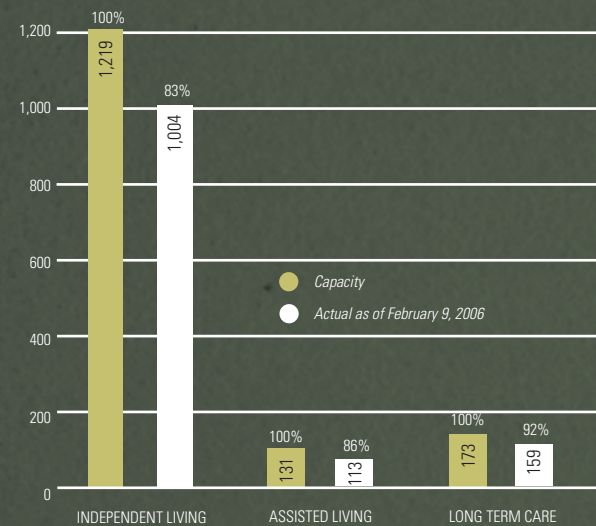
With little warning, Hurricane Katrina slammed the US Gulf Coast in August 2005 – causing the evacuation and temporary closure of our Gulfport campus. Since then, hundreds of volunteers and government workers have aided the massive clean-up effort. This includes the good people at FEMA, the Seabees and our staff, plus Gulfport volunteers, clubs and agencies. Together, we removed the debris from the campus grounds. What remains are the damaged buildings, grounds and fixtures.

The hurricane forced us to shift our attention from enhancing the overall organization, to preparing the Washington campus for an influx of evacuees. This exhausting ordeal tested the limits of our staff and residents. And it forced us to retool our strategy, so we could maintain the ground we've recently gained. But, to truly thrive, the AFRH had to change and adapt again, just as it has done over the past two centuries.

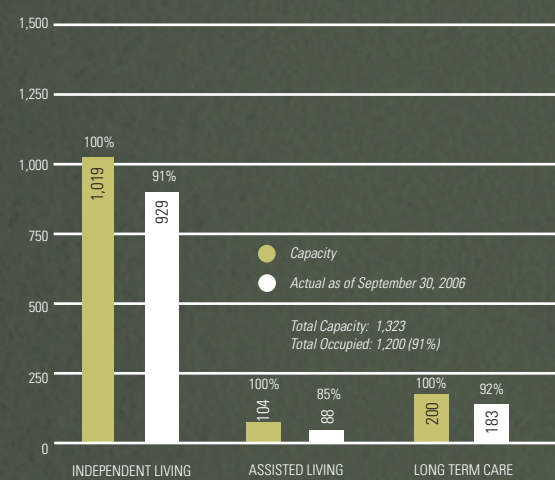
Katrina even decimated our historic Gulfport chapel. Yet, miraculously, all 10 custom stained-glass windows survived. All were designed by the renowned Willet Stained Glass Studio in Philadelphia for \$140,000.



AFRH Washington Occupancy
February 2006



AFRH Washington Occupancy
September 2006



Note: 3.6% or 43 residents occupy 2 beds (1 in Independent Living and 1 in Temporary Care)

DC occupancy shifted after closing Pipes and opening rooms in Sheridan and Scott

The Staff to Sustain

Our dedicated workforce is a big reason why the residents thrive. Our staff will routinely go the extra mile to create a new program, improve an existing service, or simply offer a kind word to brighten a resident's day. With the help of our great people, we have been successful. After Hurricane Katrina and the closure of Gulfport, we transferred some of our Gulfport staff to Washington. Many of those fearless employees were a great help during the transfer and transition.

All told, we kept our entire Gulfport staff on administrative leave for six months after Katrina struck. This helped them all maintain an income in a totally devastated region. We further helped by providing training and workforce transition for those unable to continue in their field. We even supplied onsite training and support to the distressed Gulfport area.

Staying Solvent

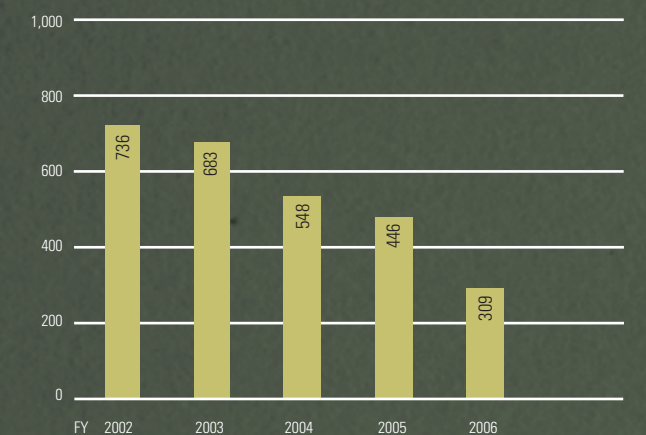
Alas, we could not sustain the added staff in Washington for the long haul. We soon realized the Gulfport campus would remain closed until reconstruction is finished – perhaps in a few years. So, we underwent one reduction in force of the Gulfport personnel.

A total of 231 policy directives from Gulfport have been cancelled. AFRH directives are being coordinated and published – and will apply to Gulfport and/or other campuses should they be opened.

The resident surge in DC caused various inefficiencies. We were constantly modifying our contracts and were shorthanded with specialized staff. So, we will need to put our workforce back to acceptable levels.

The chart below shows our anticipated staffing based on the best information available as of this writing. Fortunately, we will be planning to add staff members when Gulfport reopens in the future. But, for now, the Washington campus is the focus of all AFRH operations.

Full Time Equivalent Employees



AFRH Medical Director Dr. Sissay, (right) cuts it up at the close of a productive offsite meeting. CFO Steve McManus and the AFRH staff look on.

The Performance to Propel

The Home realized solid progress in FY06, despite many distractions. Our ultimate hope is to continue to make even greater advances – so that our Veterans will be just as proud of this organization as we are of them. With that in mind, we march forward with steadfast determination to meet and exceed our Strategic Goals.

During FY06, we pursued our Strategic Goals, which are squarely in line with our Mission. These Goals are linked to the Performance Plan for all staff members – via

unique campus objectives, initiatives and agency leadership roles. Further, we created the AFRH Corporate Business Plan for both campuses – which will guide our staff to ultimately fulfill the Mission.

This section highlights the most significant AFRH performance measures for FY06, as identified by our management and related performance results. A detailed discussion of our key actions and results can be found in the Performance Section.

KEY ACTIONS: 35% Achieved (34) 36% In Progress (35) 29% Started (28)

Strategic Initiatives

In line with the AFRH Strategic Plan for 2006-2010, we have refined our corporate Strategic Goals. Each goal has specific and measurable objectives – with corresponding Key Actions to ensure our steady progress.

Regrettably, the impact of Hurricane Katrina and the ensuing recovery affected our progress in FY06. Our steady advances quickly slowed when we were forced to relocate the Gulfport residents. Then we refocused our efforts and gained momentum on our Strategic Goals as we reached the end of the fiscal year. At this time, staff members became consumed with achieving them.

Results Summary

The Home strives for great results through its five Strategic Goals, 41 Objectives and 97 Key Actions. Yet, 2006 was a year filled with emergencies and uncertainty. Given the surprises we endured in the wake of Hurricane Katrina, the Home has shown remarkable flexibility and achievement toward its Goals.

Success Areas

Two areas of progress were in Financial Growth and in Exceptional Service. In fact, we improved fiscal management, plus we achieved our IT security certification and accreditation. This success story is highlighted in the PMA section below, under Expanded Electronic Government (E-Gov). As you will see, it shows the link between AFRH strategy and the PMA.

At a key management offsite, we addressed many corporate initiatives. Together, we initiated our AFRH Guiding Principles and formed action teams for resident service. In general, this offsite helped the staff re-energized its efforts to focus on residents' needs. In fact, our Memory Support Day Care is almost completed.

Resident Feedback

Our teams generated surveys to gather resident data. One survey garnered more than 200 responses, noting satisfaction in most areas. Concerns entailed transportation and living accommodations. While neighborhood location, dining services, and healthcare were cited as not meeting expectations. Further, a recreation survey is taken each year. Once again, the Library is the #1 preferred service on campus. Now, exit surveys are routinely given to residents as they leave, so we can make further enhancements. Also, one-on-one personal exit interviews were initiated.

We've taken bold steps to provide better service in all areas of concern – from process improvements and new dining menu items – to added transportation routes and familiarizing residents with Washington, DC. A service pilot program began in the Health and Wellness Center to assess wait times and service perceptions. Data collection over 30 days revealed smooth appointments for health problems, but delays waiting for the checkups required to renew prescriptions. So, our staff is now focusing on those areas for improvement.

"I just love the dances they throw here. They give me a chance to brush up on my Jitterbug, Cha-cha and Swing."

— Frank Migala (Ret. Army)



FY06 Performance Results					
Objective		Key Actions Started	Key Actions Progressed	Key Actions Advanced	TOTAL
GOAL 1 - Financial Growth:					
FG-1	Create net growth and stability for the AFRH Trust Fund				
	Increase revenue resulting in a net increase.	3	8	9	20
	Reduce costs resulting in a net increase.	9			9
	Enhance fiscal management.		2	7	9
FG-4	Change corporate operating model.			5	5
GOAL 2 - Exceptional Service:					
ES-1	Enhance the AFRH experience to enrich the quality of residents' lives.				
	Craft a resident-focused environment with service measurements.	4	4	7	15
	Enhance customer satisfaction through vibrant community outreach.		2	4	6
	Promote resident vitality and independence as long as possible.	1	3	1	5
GOAL 3. Improved Processes:					
IP-1	Modernize operations to leverage and maximize resources across AFRH.				
	Simplify and standardize processes.	3	2	1	6
	Optimize our use of technology solutions.	1	5		6
	Increase timeliness and satisfaction with communications.		3		3
GOAL 4. Learning & Growth:					
LG-1	Promote personal excellence and professional growth for all personnel.	2			2
	Provide a comprehensive employee training program tied to performance, competencies and accountability in compliance with OSHA and JCAHO requirements.				
	Develop and manage workforce talent.	1	1		2
LG-3	Develop a strategy for employee professional development.	3	1		4
GOAL 5. Culture of Integrity:					
CI-1	Inspire commitment to AFRH Guiding Principles through mutual respect.				
	Increase teamwork and cooperation among AFRH employees.	1	1		2
	Engage and motivate the workforce.		3		3
TOTALS		34	35	28	97

RESULTS

Management Challenges

Katrina Recovery

At the end of FY 2005, AFRH faced an uncertain future. Hurricane Katrina suddenly forced the closure of the Gulfport campus. And virtually all the residents were separated from their personal items. More than half of the residents accepted the generous offer of temporary residence in Washington. So our staff scrambled to accommodate them with living quarters, proper furniture and adequate services. This chaos, along with the miraculous and safe rescue of the Gulfport residents, was highlighted in the AFRH FY05 PAR.

Providing housing and care for the relocated residents consumed this organization from Oct. 2005 – Jan 2006. Consolidating services from two campuses inflated our medical, dining, healthcare, transportation and resident services. Contracts had to be expanded and then trimmed – as the number of residents swelled and then shrank, as some decided to leave. Also, supplying basic necessities was a top priority – like toiletries, radios, clocks, lamps and other creature comforts that were left behind in the foamy wake of Katrina. And buying obvious new items was in order – like winter coats and galoshes, given the climate change. All told, these exhausting efforts became our consuming focus in FY06.

Lapse in Momentum

Indeed, AFRH made great progress in prior years: from improving our core business processes and reducing staff size ... to competitive sourcing and reducing our campus “footprint.” Yet, uncertainty has loomed throughout the AFRH this year – most of it surrounding the fate of Gulfport. To stay on track, we looked to the Guiding Principles of the AFRH. One states: “We will manage our resources while continuing to provide the highest levels of care and services to residents.” With our Principles as a guide and with generous support from Congress, AFRH is now moving forward.

Supplemental Funds

\$6 M initially given to move residents

\$65.5 M
\$45 M to plan and design Gulfport
\$20.8 M to house displaced residents in DC

\$176 M to rebuild the Gulfport complex

To accommodate the surge of residents in DC, \$10.8 million of Katrina funds are being used to develop a Memory Support unit, improve Assisted Living facilities and more. Katrina funds were also used to help transfer personal items to Washington and other locations in the US, where former Gulfport residents now reside. Thankfully, many volunteers helped boost these efforts.

The Seabees were true lifesavers in the aftermath of Katrina. They helped clean up the campus and salvage our valuables.



After Hurricane Katrina, various appropriated funds were authorized to AFRH to support our transferred Gulfport residents.

In FY06, these funds were used to:

- Establish a Mobile Dental Clinic
- Increase the number of nurses on contract
- Recondition resident rooms in the Pipes Building (formerly mothballed)
- Store the residents' personal belongings
- Purchase resident database software
- Acquire additional furniture and air conditioning units
- Pack and ship Gulfport residents' personal items to DC and elsewhere
- Make extra Assisted Living and Long Term Care renovations
- Augment local transportation services

Future Planning

Congress requested that we create strategies for the future of the Gulfport campus. So, in a Special Report to Congress, dated February 28, 2006, (per House Report 109-359) to provide options for the future of AFRH) one option was to construct a brand new campus. Fortunately for the AFRH, Congress has appropriated funds to rebuild the Gulfport facility in May 2006 (per Public Law 109-234). And our residents and staff are forever grateful.

Moving forward, GSA is the agent for the construction and has already begun work with AFRH. So far, GSA has appointed a program manager and, with AFRH managers, has visited the Gulfport site three times since the above law was enacted. The next step is the appointment of a GSA onsite project manager. A Memorandum of Agreement (MOA) between GSA, AFRH and NAVFAC is being negotiated along with the requirements for the building.



“Goldy” is an avid leatherworker, making belts, satchels and cutlery cases. He served in the Army Guard, the Marine Corps and the Air Force. Overall, he says he’s satisfied with his life here.



Marian Powers celebrated her 83rd birthday on top of the world. Literally. She jumped out of an airplane at 13,500 feet, did a triple summersault, entered freefall for a minute and coasted to the ground.

“Since 1942, I have dreamed of going skydiving!” Marian said. But why on earth (or off it!) did she wait so long?!? Well, she first developed a passion for it in the Navy WAVES – at parachute rigging school in Lakehurst, NJ. There, she underwent 12-weeks of intense training.

The program was the same for all, with one exception: at the end, men were required to jump, while women were not permitted. Marian mused, “They always said, ‘sometime in the future, you may be allowed to jump.’”

Marian’s diligence advanced her to Chief Parachute Rigger by January 1946. Yet, fate put off her long-deserved jump. She fell in love and married her sweetheart “Skeets” a month later. And by June, she became pregnant and was discharged. Alas, her dream was put on hold. Nearly 60 years passed. On a visit to her daughter’s in Palatka, Fla., Marian saw skydivers jumping and read about them in the paper. That was it. At once, she went to the airport

and booked her jump for November 3rd – her 80th birthday. (Another famous Vet also parachuted on his 80th birthday: George H.W. Bush, our 41st President.)

Finally, the big day arrived for this great-grandma of four. Wearing a lavender and hot pink jumpsuit, Marian took off for the wild blue yonder with her grandson Chris, instructor Ralph, two photographers and five jumpers. All of which sang ‘happy birthday’ to her on the flight up.

“I don’t know how I made it to the door, Marian said. “But over the cold, brisk wind in my face, I heard, ‘One, two, three, Jump!’” After freefalling for what seemed a lifetime, she felt a jolt – the chute opened. She coasted to the ground smooth as silk, doing just what Ralph told her. After kissing Skeets, she promptly told Ralph: “I’ll be back again in 2022 – for my 100th birthday!”

It turns out Marian came back three years later, for her 83rd birthday – and did another spectacular jump. “I had waited 60 years – why wait another 20,” Marian chuckled. Well, it just goes to prove: you’re never too old to try something new.

The Targets to Hit

2006 Performance Measurement

Each Federal agency is required to certify the completeness and reliability of its performance data and describe the means used to verify and validate that data (per The Government Performance and Results Act of 1993 and the Reports Consolidation Act of 2000). So, many of our performance areas have undergone independent reviews by the Air Force Inspector General, Office of Personnel Management (OPM), the Bureau of Public Debt (BPD) and JCAHO.

Financial Data

During the financial audit of FY06, various tests and reviews of our core accounting system were conducted and reported in the SAS 70 – as required by the Chief Financial Officers Act.

Controls & Procedures:

We use a variety of measures to assess our effectiveness and achievement:

Business Measures:

- An increase in the Trust Fund value
- A rise in resident occupancy
- Savings through initiatives
- Reductions in space & land usage
- Donations from community partners, non-profits & foundations

Customer Satisfaction:

- An increase in completed Surveys
- Improvements in health & wellness
- Enhancements to the facilities
- Supplemental services

Employee Satisfaction

- A boost in Performance Evaluations
- Integration of the Volunteer Program
- Updated policies & directives



Paul Dwyer of the Pentagon Foundation mingles with resident Marion Marques at the "Night of Heroes" black tie. This annual gala salutes past and present wartime heroes, while raising money for wounded military personnel.

External Benchmarks

As a healthcare provider, AFRH is required to meet the standards developed by national organizations that accredit health facilities. In FY06, JCAHO awarded AFRH-Washington a Gold Seal of Approval™. That distinction was in addition to the success in FY05 at AFRH-Gulfport as well as positive feedback given during two separate on-the-spot inspections at both campuses.

Also, our Dining Services unit has a profound and positive affect on the health of our residents. As such, it must comply with JCAHO food and preparation quality standards – as well as the Food and Drug Administration's Food Code. Plus, we also abide by sanitation standards enforced by the US Army during their sanitation inspections.

Finally, The Office of Personnel Management (OPM) conducted a routine inspection in September 2006. While the final results are not yet known, the team did comment on the excellence of the service provided by the Bureau of the Public Debt and that our employees are pleased with it.

Computer Data

To validate each data report, we make sure that more than one person is responsible for compiling it. Likewise, we employ a chain of command review-and-approval to validate our policies and procedures – on everything from food and healthcare, to recreation and support services. During FY06, AFRH underwent a rigorous inspection of its IT security by the BPD.

"I have a 50-year habit of exercise. Everyday. And I wouldn't do it if I didn't love it!"

— Jerry Stahler
(Ret. Air Force, E6)



The Wisdom to Manage

The President's Management Agenda (PMA) is a strategic tool to improve the management and performance of the Federal government. Since 2001, five government-wide Initiatives have been the standard against which agencies develop and implement action plans. (See below.)

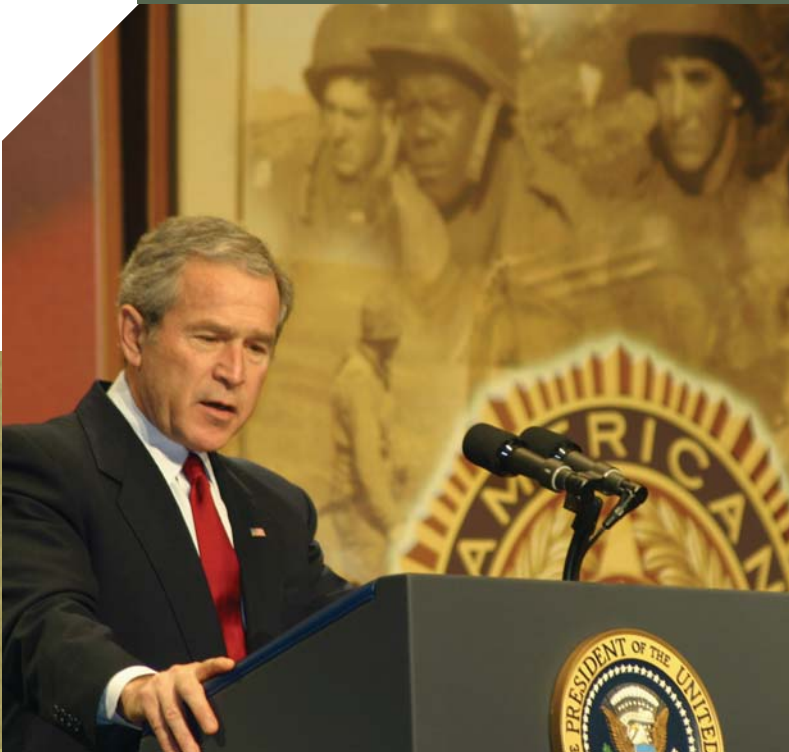
The AFRH heeds the guidance in the PMA – and we continue to make significant progress in each of the five initiatives. The Home has not officially submitted for evaluation, but every year since FY 2004, we have conducted a self-assessment as of September 30th.

“There are few items more urgent than ensuring that the Federal government is well run and results-oriented.”

— George W. Bush

In 2006 we focused on:

Expanded Electronic Government



PMA Initiatives for AFRH

Initiative	Progress	Status
Strategic Management of Human Capital	●	●
Competitive Sourcing	●	●
Improved Financial Performance	●	●
Budget and Program Integration	●	●
Expanded Electronic Government	●	●

● PROGRESS

● STATUS

Strategic Management of Human Capital

Background

The goal of this initiative is to build, sustain and effectively deploy a workforce that is skilled, knowledgeable and diverse. In the process, agency strategies are aligned with the corporate mission, vision, guiding principles, goals and objectives – yielding an organization with a high-performance culture. Such an environment will help us meet our current and future needs. And truly manage change and growth.

For AFRH, it all starts with good people. They are the single most valuable resource available to our leaders, as cited in the AFRH guiding principles. So, we’ve been building a fully integrated human capital management system to bridge the gap between the AFRH of today ... and our vision for tomorrow. We fully aligned our actions with the Home’s strategy and goals. We integrated competitive sourcing to reduce Full Time Equivalents (FTEs) and boost staff quality. Plus we systematically measured performance with 100 percent of our staff’s performance appraisals (which were linked to our corporate goals). All along, we remained focused on our mission.

Progress

Our performance management pilot ended in the summer of 2005 – and performance standards were going to be set for the full implementation of the Performance Plan. However, with the Hurricane’s arrival, we experienced a “disconnect” in our workforce in setting standards for the new performance period. Hence, an extension of the performance period has been granted to December 2006.

To manage our human capital most efficiently, we partnered with BPD’s Human Resources division to execute all HR functions. To gain insight on the effectiveness of that partnership, the OPM performed a periodic inspection in September 2006 for us. While the final results are still unknown, the inspection team did comment on the excellence of the service provided by the BPD and that our employees are pleased with it.

We’re providing our workforce with more E-Gov solutions. This gives them two advantages:

- Access to E-Gov initiatives at other agencies, and
- Management tools for their own personal career

Status

The only key PMA criteria – succession strategies – has not been addressed yet. (This entails structured executive development programs that result in a rich leadership talent pool. And they are continuously updated to achieve results.) So, the progress and status scores for this Initiative are both “Yellow.”



Resident Edmund Crump (ret. Air Force) is congratulated after he walks a monumental 10,000 miles. He made walking a personal fitness goal to strengthen his heart and improve his circulation.

Competitive Sourcing

Status

In 2004, AFRH focused on the Competitive Sourcing initiative. Its goal: to achieve cost-savings by having public and private vendors compete for business. Here, the procedures for evaluating public and private sources are simplified. And senior-level agency leaders are encouraged to promote competition.

ARFH has actively engaged in competitive sourcing with seven such studies (six in FY04, categorized as "Streamlined." And one in FY05, classified as "Standard").

In FY06, our contracts were reviewed for efficiency, with an eye on expansion – due to the increase in residents from Gulfport. AFRH had already reduced overhead by realigning costly, non-core operations with Federal strategic partners including: Department of Treasury's BPD, Department of Agriculture's NFC, GSA and Office of Management and Budget (OMB).

The next focus for efficiency will be Community Health.* We will identify which of our services can be outsourced, plus we'll also perform a feasibility study to streamline custodial services. Later, in FY 2007, AFRH will contract one of its partners to evaluate all A-76 study contracts.

Progress

Progress on the AFRH competitive sourcing is "Green". Throughout FY06, our managers monitored the performance of contracts awarded since 2004. Certain changes were required in Transportation and Facilities Maintenance at the Washington campus, due to the extra residents from Gulfport.

Finally, all contracts in Gulfport were cancelled after Katrina.

Status

AFRH has achieved "Yellow" in competitive sourcing. Due to the Hurricane, no studies were conducted in 2006. However, the studies are slated for 2007.

**In Gulfport, we had a contract with doctors to come onsite and they billed residents' insurance. Much of the focus can be on residents' medication as we are enhancing the current system in DC.*



Competitive sourcing proved to be a great recipe for faster service, healthier food and happier residents.

● PROGRESS

● STATUS

Improved Financial Performance

Background

This Initiative requires Federal agencies to ensure their financial systems produce accurate and timely information. After all, sound, reliable data supports key operating, budget and policy decisions. Plus it helps an agency achieve and sustain clean audit opinions.

In order to meet their fiduciary responsibilities, agencies must comply with a variety of laws and regulations. They must meet financial deadlines, comply with the Federal Financial Management Improvement Act, produce accurate financial data on demand and routinely assess the performance and financial data that managers use to make daily decisions. All the while, agencies must avoid Anti-Deficiency Act violations, material internal control weaknesses and material non-compliance with laws or regulations in accountability reports.

● PROGRESS

● STATUS

Progress

Progress is "Green." The AFRH Trust Fund balance is vital to survival of this Home. So, AFRH has made aggressive moves to improve its financial state. In FY 2004, we outsourced the accounting and contracting functions to the BPD's Administrative Resource Center (ARC). This improved our execution and stewardship of funds. The Home meets its financial deadlines and complies with all relevant regulations, producing financial information on demand.

Due to the above, the Trust Fund balance has grown dramatically – from \$94 million in 2003 to \$146 million in 2006. Plus, the audits of FY05 and FY06 produced "unqualified opinions."

Washington Master Plan

This Plan strives for sufficient revenue to support our resident-focused care. It will also help replenish the Trust Fund and give us more capital to improve our campus. The Plan also seeks to attract development at a fair market value that is compatible with the AFRH mission. In the summer of 2005, an open dialogue with the residents and neighbors began and this process is moving forward. At the end of FY06, a major milestone was reached: we chose three potential developers for the first AFRH redevelopment project.

Gulfport Master Plan

Admissions to Gulfport are closed. The cost to rebuild the campus has been funded through a Congressional Hurricane Supplemental totaling \$236 million. The GSA, through legislation and an MOA, are managing the rebuild process. In conjunction with AFRH and NAVFAC. Currently, GSA is working on how we shall proceed. Estimated rebuild time: three-to-five years.

Status

We are continuing to grow and evolve. In FY06, the Home established its Internal Control Board and Senior Assessment Team. Our IT security received certification and accreditation. And we received an "unqualified opinion" in our audit. Lastly, we received assurance through an SAS70 that validated the integrity of our management controls. So, AFRH has achieved a "Green" in Improved Financial Performance.



Edith Ellington loves creating new projects in the ceramics shop. She's made 50 "Rock-n-Roll Santas" and has sold many to the residents and staff. Edith is a former flight line mechanic in the WACS.

- PROGRESS
- STATUS

Integrated Budget and Performance

Background

This PMA initiative calls for the quarterly examination of reports that integrate financial and performance information along the lines of major responsibilities. It ensures that performance is routinely considered in funding and management decisions. And that programs achieve expected results while working toward continual improvement.

Progress

We've been working on many fronts to integrate our budget and performance. On the agency level, initiatives for the PMA have been achieving objectives, as stated. On the corporate and campus level, our Business Plan directly links performance with strategy. In fact, 100% of our performance appraisals link one or more of our strategic objectives to staff performance expectations. Although our financial accounting system and the AFRH strategic goals were not directly aligned in this fiscal year, we are moving in that direction.

Now, we are determining what portions of our operating expenses are spent on achieving our various strategic goals (Exceptional Service, Improved Processes, Learning & Growth and Culture of Integrity). Incidentally, we have studied the Social Security Administration's success in this area and we are ready to focus on this initiative in FY07. We can, however, associate our PMA successes to our strategies. So, at present, our progress remains "Yellow".

Status

The performance link – from strategy to individual manager accomplishments – continued in FY06. With delays and a reduction in force due to Hurricane Katrina, the performance management results were not finalized. So, the status for Budget and Performance Integration remains "Yellow."

He said:

"We've been married 60 years. Over the years, we've traveled the US in our RV."

She said:

"Here, it is good living! There's no cooking and no cleanup. (Unlike in the RV.)"

—Ray & Jo Colvard
(Ret. Navy & Army - WWII)



Expanded Electronic Government (E-Gov)

- PROGRESS
- STATUS

PROGRESS

Background

The PMA requires all agencies to furnish a "modernization blueprint" for E-Gov. It should focus on IT investments in key functions and define how they will be measurably improved. To achieve a "Green" in E-Gov, the plan must address: security, success measures, program management, performance goals, risk-management and cost schedule for all IT systems. Cost and schedule must be on target – and no overruns or shortfalls should greater than 10%. Plus, agencies must contribute to three of the four categories within the E-Gov Initiative.

In fall 2003, an IT assessment and needs-analysis was conducted at AFRH. The results: our IT structure was fragmented, outdated and misaligned with the agency's business operations. In fact, Washington and Gulfport tech functions operated as independent entities – often with separate approaches to business systems and operational policies. This yielded two completely separate networks that lacked redundancy and integration, driven by aging servers that ran outdated software. So, a strategic vision was established and put in action. The new AFRH enterprise platform would be aligned with the agency's mission and implemented enterprise-wide.

Progress

We've made great strides to conform to agency-wide E-Gov. We addressed key issues, many of which were identified during our last IG assessment. We greatly enhanced communications and our reduced costs. Plus, we now have transformed our in-house managed systems to externally hosted resources – and using web-based technology to the max. As we modernize, we're also conducting internal reviews of our processes. Specifically, we're looking to streamline customer response and utilize best practices.

All of this is nothing new. The Home has been addressing IT deficiencies for years. In July 2005, the DoD conducted an agency-wide IG assessment. It confirmed numerous key IT issues we had previously identified for change. Plus, it identified a few new areas for focus. This assessment helped AFRH strengthen its methodology and conform to the Federal Information Security Management Act (FISMA), the Computer Security Act and OMB Circular A-130.

Cyber Victories

- We invested resources to upgrade our network infrastructure. This exponentially boosted security awareness and IT investment accountability. It also upgraded the Internet firewall protection to an enterprise level of protection
- A massive IT asset replacement and accountability project was completed. This increased our software vulnerability management, desktop management and software/hardware management
- We implemented customer security awareness. Now, AFRH is conducting mandatory security awareness onsite, plus web-based training for all enterprise customers. Beyond the rules of behavior, we're educating customers on the protection of sensitive unclassified information and agency IT policy.
- Our IT security policy was implemented. It was reviewed and accredited by an external legal review team. Then we established a managerial review process to respond to security issues. This will help maintain a peak level of conformity to our established security policies.

The Technology to Advance

"Our IT pros are the architects of our world-class enterprise system. And their amazing efforts have paid the Home big dividends!"

—Steve McManus,
AFRH CFO & CIO



Our goal is to help the entire AFRH organization maintain security peak protection, while complying with the Federal initiative for E-Gov. So, over the past year, we ramped up our efforts to take the Home's IT systems into the 21st century. These efforts will help us realize our mission, broaden our capabilities and expand the Home to other location in the future. Truly, the AFRH of the future is ready to thrive.

Security Certification & Accreditation

For starters, AFRH contracted the BPD to conduct a rigorous review of our IT system. All resources were tested against benchmarks set by FISMA and the OMB. And all facets of our IT management and oversight process were analyzed.

Thanks to our preparation, the government's guidance and our IT staff's ongoing testing, we have received a "Green" rating. As such, we have earned our official security certification and accreditation, as outlined by the National Institutes of Standards and Technology (NIST). This means we are now in compliance with Federal technology standards.

Specifically, certification and accreditation signifies that management, operational and

technical security controls in our information system all meet all identified security variables. And that the Home's IT operations, technical security controls and continuous risk monitoring are in concurrence with FISMA.

Local and Wide Area Network

AFRH designed and implemented a high-speed enterprise local and wide-area network. Complete with desktop management tools, our new network has the built-in capacity and flexibility for future growth in a wide-area expansion. It also allows for a future transition towards Voice over IP (VOIP) technology. To maintain our peak level of IT asset protection, vulnerability assessment tools have been put in place.

Resident Management System

AFRH executed an externally hosted web-based system to track all aspects of the resident community. This replaced our antiquated and redundant systems that were internally managed. Our new system integrates the functions of public affairs, admissions, finance, health-care and facilities in a single managed system. Plus it provides modular functionality in the Long Term Care areas of pre-admissions, admissions, A/R billing and Care Plan MDS.

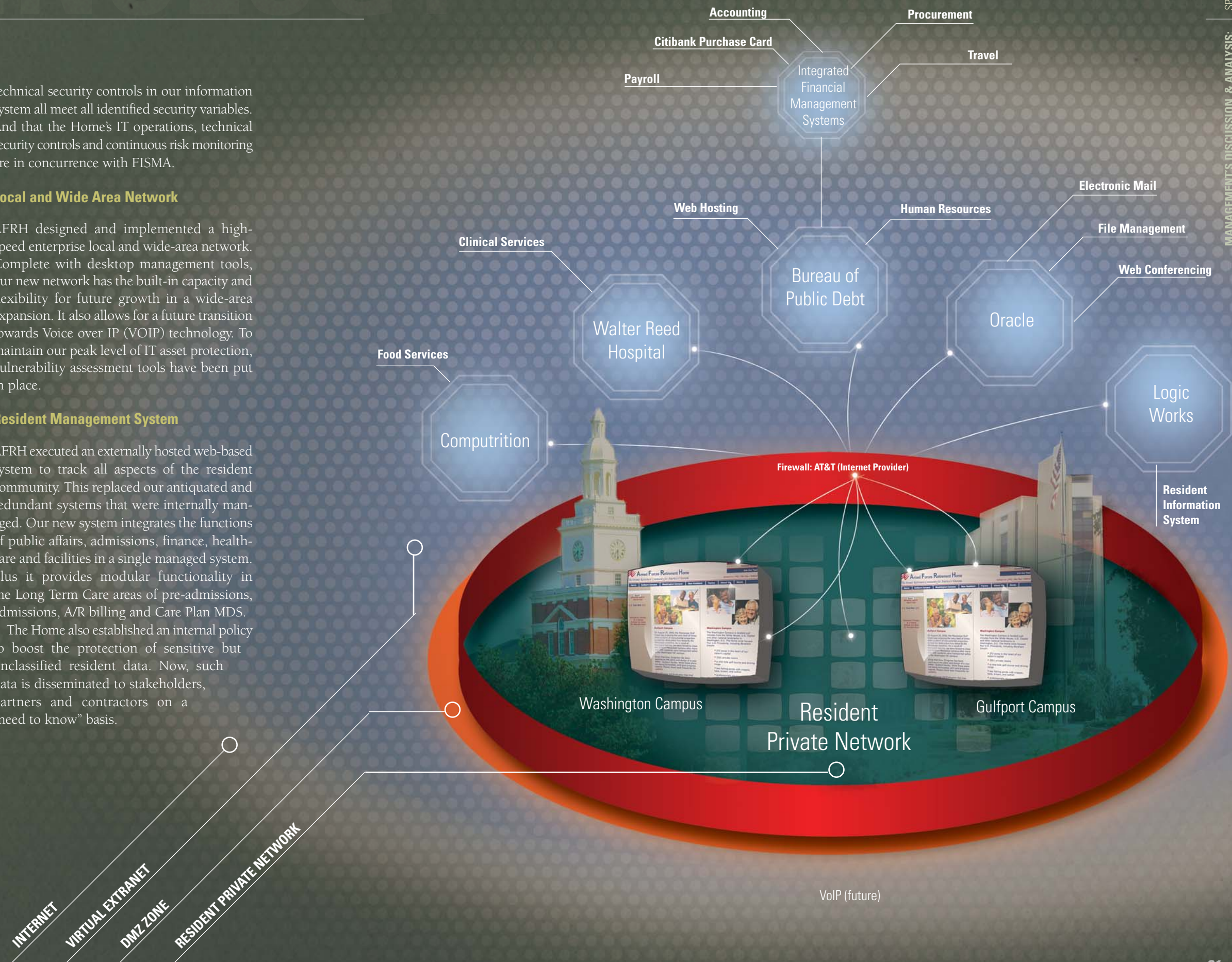
The Home also established an internal policy to boost the protection of sensitive but unclassified resident data. Now, such data is disseminated to stakeholders, partners and contractors on a "need to know" basis.



"We all played a big role here ... Margie, Marcus and myself ... in making sure all security and policy was in place."

—Stan Whitehead, AFRH IT Director

AFRH Enterprise



The Home celebrates its IT security certification and accreditation on September 30th.



Intranet and Website

The BPD recently spearheaded the development and maintenance of our website and intranet web pages. This has streamlined customer access to our systems and consolidated all resources to a single source. The Home's public website (afrh.gov), proved to be a valuable tool during Hurricane Katrina. It served as a communication tool to circulate information to the residents' families and the public on the status of the Gulfport population and campus. At the end of FY06, the website was redesigned.

Today, AFRH is working with the BPD to add E-Gov resources to our website.

In-house Broadcasting System

AFRH is now upgrading its legacy and limited campus-wide video broadcasting system – Channel 99. This channel is widely used by the AFRH community to post announcements and promote events. The system's capability will move far beyond its present capabilities to offer much more entertaining and dynamic broadcasts. This new system will also have web-based management tools to allow multi-campus interaction.

Email and File Management

AFRH is currently utilizing an externally hosted web-based email and file management system. This secure system provides a single domain and streamlined management tools for our IT staff. This widely used system allows the AFRH customer base remote access to email and file storage via the Internet using a Secure Socket Layer (SSL) connection.

Moving Forward

Telecommunications System

Soon, we'll upgrade our legacy telecom system with an enterprise-wide system. This will support the AFRH business community – while also offering the residents enhanced services as well as competitive local and long-distance rates. This is in stark contrast to the limited services offered by local vendors. The new system will also have the ability to transition to VOIP technology between campuses – allowing for 4-digit dialing and eliminating all long-distance intra-campus charges.

Streamlined Help Desk*

User support at our help desk has now expanded to include "rapid vendor response" to all end-user issues on our hosted systems. The Helpdesk also include customer training on applications, technology security awareness and IT etiquette. Now, the Helpdesk can maintain the latest security updates and reduce support response time with vulnerability assessment and remote management tools. This increased support at AFRH is enterprise-wide.

IT Review Board

We are developing a Review Board made up of select employees at various workforce levels. Its purpose is to review and analyze existing systems and perform requirements studies on our customers' future needs. The agency-wide input we get from the board will help us reduce gaps between our systems strategy and business model.

Status

In the aftermath of Hurricane Katrina, the Gulfport IT system was severely damaged. So VoIP planning is on hold until we rebuild. Still, AFRH successfully met the PMA E-Gov initiative in FY06. Also, improvements are complete on the IG-cited areas of concern.

AFRH established an MOA with BPD to conduct a rigorous, independent IT certification and assessment review. All IT resources were tested against benchmarks set by FISMA and the OMB. And all facets of our IT management and oversight process were analyzed. Thanks to our thorough preparation, the government's guidance and ongoing internal testing by our IT staff, AFRH has received a "Green" rating.

**The AFRH has just one person on the Help Desk. Yet, we have expanded its resources on each of the various applications available through BPD, which leverages five Help Desks.*

"Three years ago, we couldn't send email outside of our own system. Today, we can access critical AFRH data and the world – with a new, robust enterprise system."

—Timothy C. Cox,
AFRH COO



Charles Chambers served in the 8th infantry during WWII – and was held as a POW in a German hospital for 3 weeks. Today, he spends a lot of time in the library doing research.

The Funds to Flourish

A permanent Trust Fund was established nearly 200 years ago to maintain AFRH – so it would not have to rely on taxpayer money. All throughout the Home’s history, operational funding has come from the Veterans themselves. It is solely drawn from the AFRH Trust Fund, which is fed monthly by active duty payroll deductions of \$.50 per month from each enlisted and Warrant Officer.

It is also fed by fines and forfeitures from all Branches of the Services, our monthly resident fees, the sale or lease of underutilized land and buildings, gifts and bequeaths, interest gained on the Trust Fund balance plus certain one-time situational gifts and appropriations from Congress.

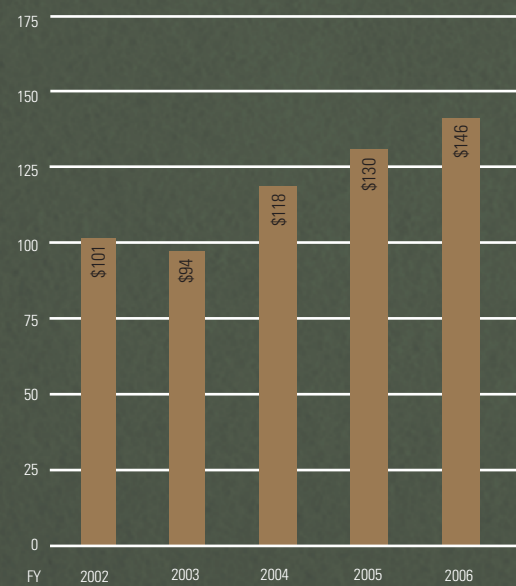
Trust Fund Balance

In 2003, operating costs greatly increased over previous years – eventually outpacing our revenue. The Trust Fund balance declined from \$156 million in 1995 to \$94 million in 2003. So, renewing it became a critical mandate to retain the Home’s solvency. We concluded our operating model had to change. And we followed the Federal government’s lead for an integrated strategy – linking planning with budget and performance. By the close of FY06, we were up to \$146 million.

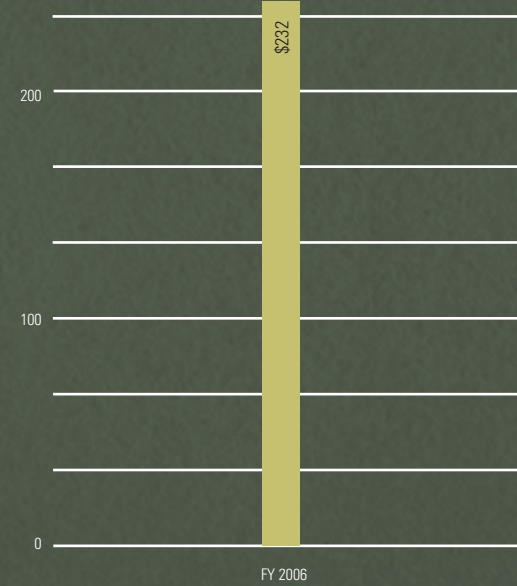
As a result, the AFRH Trust Fund balance grew to \$146 million.

Congress provided Hurricane Supplemental funds to help us meet the residents’ needs.

AFRH Trust Fund Balance
In millions of dollars



AFRH General Fund Balance
In millions of dollars



NOTE: This chart does not include Hurricane Supplementals.



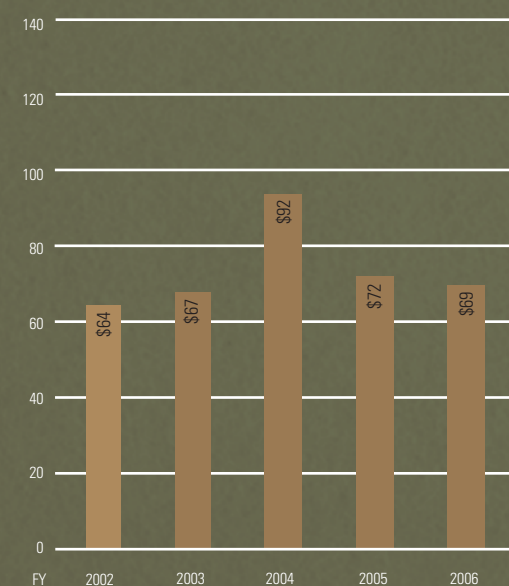
“I was honored to perform at AFRH. I’ve met a lot of soldiers and their families – and I truly feel for them. So I’m donating proceeds from my new CD to *The Fallen Heroes Fund*.”

—Ty Nelson,
rising country star

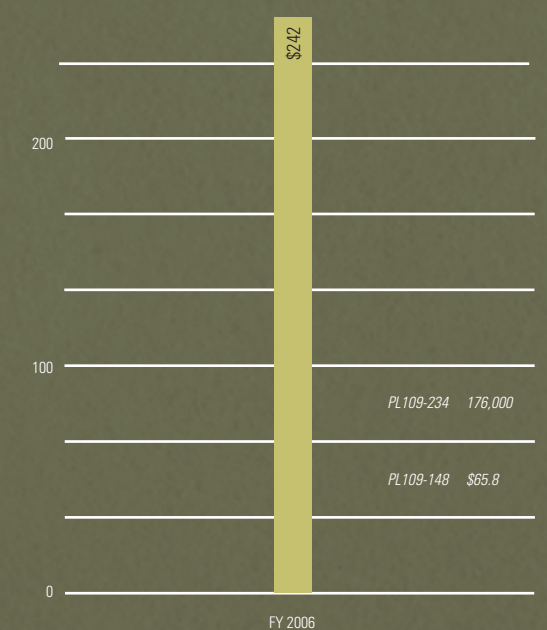


Ty Nelson schmoozes with Sheila Abarr, our public affairs officer, after his 5-star performance here.

AFRH Revenue
In millions of dollars



AFRH General Fund Revenue
In millions of dollars



Congress provided Hurricane Supplementals to help meet the residents’ needs.

Revenue Increases

With the recent increase in the Trust Fund balance, AFRH revenue growth has also been steadily increasing. (See chart below: Revenue.) In fact, one main source of our increased revenue in FY 2004 was the sale of real estate on both campuses. In 2006, our revenue stream remained strong – despite the closure of the Gulfport campus. Our strategy for future revenue gains lie in the AFRH Master Plans. (See chart below: Revenue by Income Source.)

Revenue Sources

The Home's revenue sources include current enlisted fine and forfeitures, resident fees, withheld pay, Trust Fund interest, and other amounts (including donations, sales and real estate leases). Of all the revenue sources, Fines and Forfeitures provide the largest amount – and have fluctuated only slightly over the past several years. Also, large gains in revenue have come from sales and leases.

The Home's revenue sources include current enlisted fine and forfeitures, resident fees, withheld pay, Trust Fund interest, and other amounts (including donations, sales and real estate leases). Of all the revenue sources, Fines and Forfeitures provide the largest amount – and have fluctuated only slightly over the past several years. Also, large gains in revenue have come from sales and leases.

Staffing

Streamlining the staff has been an ongoing strategic initiative for several years. Ironically, the Gulfport closure after Hurricane Katrina required one personnel reduction in force.

The chart below (Full Time Equivalent Employees) shows our anticipated staffing based on the best data available. We will continue to plan for staffing when Gulfport reopens in the future. Yet, for now, the Washington campus is the focus of all operations. Starting in early FY07, no employees will work in Gulfport until the rebuild is completed.

Assets, Liabilities & Cumulative Results of Operations

For FY06, our Consolidated Balance Sheet reflects:

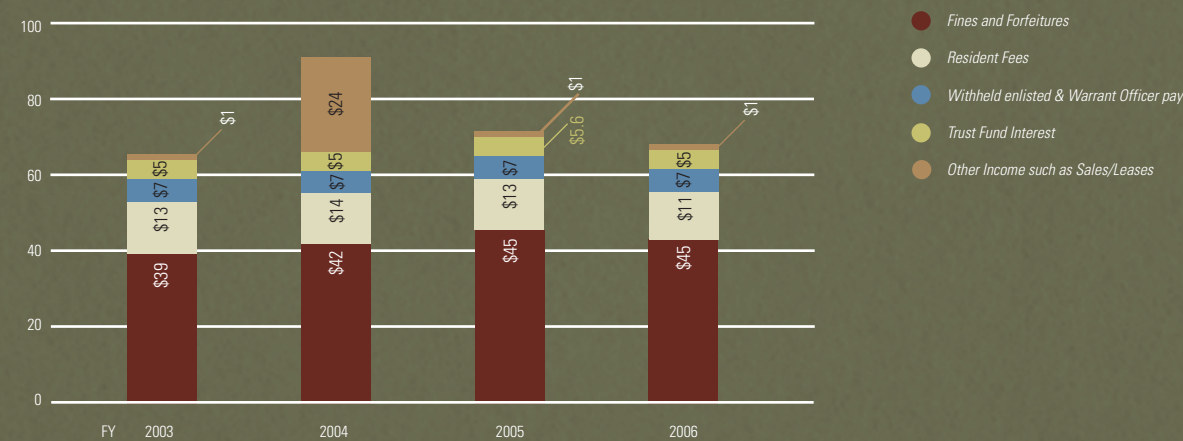
—Total assets of \$458 million
—Total Liabilities of \$8.2 million

About 17 percent of our assets are property, plant, and equipment (PP&E), with a book value of \$75.9 million. This PP&E is located on the Gulfport, MS campus and the Washington, DC campus.

Limitations of the Principal Financial Statements

These statements were prepared to report the AFRH financial position and operations results, pursuant to the requirements of 31 U.S.C. 3515(b). Our statements were prepared following generally accepted accounting principles (as defined by The Chief Financial Officer's Act of 1990 and by OMB). Plus they are in addition to financial reports prepared from the same books and records used to monitor and control budgetary resources. We are pleased to report AFRH is in compliance with all relevant laws, statutes, and legislation.

REVENUE BY INCOME SOURCE:



We accept the responsibility of reporting performance and financial data accurately and reliably. So all data for this report was gathered and reported through systems of rigorous controls and quality checks. AFRH employs the BPD's ARC division to perform its financial management. BPD's level of expertise is superb and provides outstanding reporting services to AFRH.

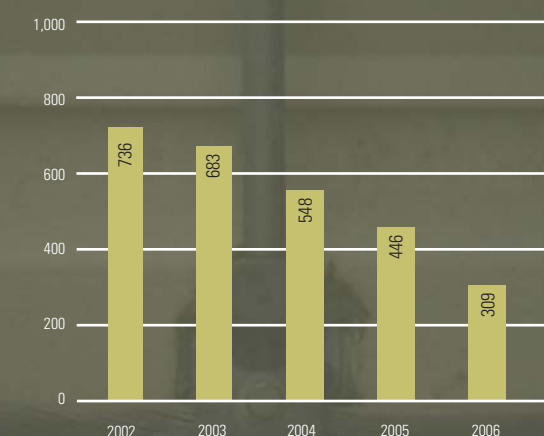
Financial & Performance Results Integration

Congress sent a clear message on its expectations for our performance by passing the National Defense Authorization Act of 2002. This law created the position of COO, to establish, measure and achieve performance goals for the Home. The COO would guarantee that we uphold The Promise to care for our residents – as well as future generations of soldiers, Marines, sailors and airmen who are in harm's way at this moment. Led by the Vision and Mission, our new COO is ensuring that the Home's carefully crafted strategic plan is directing the staff to improve performance – as well as the bottom-line.

Current Challenges

We face many new and familiar challenges: an increase in competition from privately funded communities and the rising costs of providing a premier facility and comfortable lifestyle. So, the importance of a well-coordinated strategy has never been greater. Through continued cost efficiencies, prudent investments, watchful fiscal management and cost-effective services, the AFRH is poised to maintain its financial health for generations of new Veterans.

Full Time Equivalent Employees



This section has a summary of:

- Federal Managers' Financial Integrity Act (FMFIA – Management Controls)
- Federal Financial Management Improvement Act (FFMIA – Financial Systems)
- Financial Management Systems Framework

The Confidence to Assure

During the past year, we continued our successful advance with internal controls over financial management. We achieved results in many key actions under the Strategic Goal of "Financial Growth." This can be greatly attributed to our public-to-public transfer of accounting functions to the BPD's ARC division in 2004. That move resulted in our first "unqualified opinion" in FY05 – and a second in FY06.

An independent auditor performed an audit on BPD's financial management systems (e.g. controls placed on the financial management systems and operating effectiveness from July 1, 2005 – June 30, 2006.) This assurance via Standards Number 70 (SAS70) validates the integrity of AFRH management controls and our compliance with Federal financial systems standards.

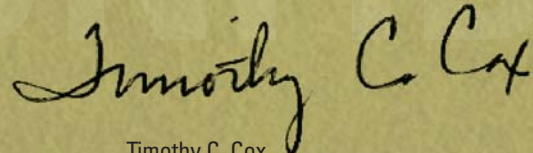
We sought security certification and accreditation for the AFRH IT Enterprise Network, which we received in September 2006. This IT effort began several years ago (as cited during the 2005 inspection by the Air Force Inspector General). Yet, it culminated in corrective actions coupled with our own unique strategy to leverage external web servers for our agency IT enterprise.

We implemented our own directive and questionnaire for Internal Control. This allowed our managers to monitor activities, gain insight into proper reporting for their functions and make corrective actions continuously.

I can provide reasonable assurance that objectives have been achieved for the Federal Managers' Financial Integrity Act (FMFIA), the Federal Financial Management Improvement Act (FFMIA), as well as for the Federal Information Security Management Act (FISMA). As of this writing, we have no material weaknesses to report.

I am very pleased with our accomplishments – and I am highly confident that our positive fiscal progress will continue in the future.

Sincerely,



Timothy C. Cox
Chief Operating Officer, AFRH
November 15, 2006



COO Timothy Cox has a casual conversation with W.R. "Kit" Kitson, the newly elected Chair of the AFRH-Washington Resident Advisory Council.

The Federal Manager's Financial Integrity Act (FMFIA)

The FMFIA requires an agency to report on the health and integrity of its financial, program, and related activities. This requirement focuses on ensuring resources are consistent with the overall mission, that programs achieve their intended results, and that programs and resources are free of waste, fraud and mismanagement. Further, the agency head must see that Laws and regulations are followed and financial management complies with Federal standards.

Internal Control

In 2006, AFRH created its own Internal Control Board and established the AFRH Senior Assessment Team. Through the Home's CFO, managers are provided a questionnaire to evaluate their own internal control structure, define effective internal controls and institute improvements for internal control deficiencies (e.g. "Risk Assessment"). Each quarter, the Senior Assessment Team will conduct reviews of internal control progress made by AFRH as an agency, as well as assess the Corporate Resource Offices and the Director of each AFRH campus.

Inspections

Triennial Inspection, Summer 2005 (submitted to Congress in FY06)

"Overall, the inspection team found that AFRH provided quality care and a comfortable resident living environment; AFRH personnel managed the Home effectively and were committed to their core business—running the premiere retirement community for America's veterans. Moreover, AFRH experienced a significant operations transformation in the services provided to the residents and in the working environment for the staff. The change was positive as AFRH evolved from inefficient management practices of the past to the "one model" approach of the future."

—Inspector General Review, Excerpt from the Executive Summary



2006 STATUS:

No "material weaknesses" have been identified.

"I enlisted in the Navy as a 17-year-old in WWII. My ship was harbored off Normandy and my most memorable experiences were there. In my first battle, I didn't know what to think. I was afraid. When the buzzer went off in target practice, I was the last in line, so my job was to close the hatch door. The 14-ft. guns went off before I sealed it – and I was blown back 23 feet. That blast blew the buttons off my shirt and I stung all over. After that, I was never last!"

—Herbert M. Thompson
(ret. Navy, E Division)

The Will to Advance

Inspection for Compliance with FISMA

As reported in the PMA E-Gov section, the Home underwent an inspection for certification and accreditation of its IT security (in accordance with FISMA). The AFRH received this distinction as a result of meticulous attention to detail and the united effort of the IT team. The team had been undergoing a continuing self-assessment for several years and benefited from suggested corrective actions from the IG's areas of concern.

JCAHO Inspection

During FY 2006, AFRH-Washington was inspected by JCAHO for its healthcare services. The Commission's standards focus on state-of-the-art performance improvement strategies that help organizations continuously improve the safety and quality of care. This ultimately reduces the risk of low quality care and error. AFRH-Washington received the Gold Seal of Approval™ from JCAHO, designating that the Home complies with the highest national standards for safety and quality of healthcare.

The highlights of the IG visit and our responsive actions include:

AREAS CITED	AFRH Actions
Many directives and policies are not standard or current.	AFRH issued an Agency Cancellation Notice that eliminated 221 Gulfport Healthcare Operational Instructions in September 2006. Since many Gulfport residents are living in Washington indefinitely, they will follow our Washington Instructions. Canceling these duplicate instructions aids our goal of streamlining dual campus policies into one standardized policy (under our Zero Base Review Plan). A total of 13 AFRH Agency Directives have been under review by legal counsel and/or unions(s). Most have been signed by the COO and issued. Our ongoing process to streamline will continue on the remaining Directives for completion in FY07.
No financial audits were conducted in 2003 and 2004.	Under the transfer of accounting functions to BPD's ARC, AFRH received two "unqualified opinions" during separate audits in 2005 and 2006.
No acquisition plan/strategy exists.	AFRH in conjunction with BPD are establishing milestones and activities for an Acquisition Plan. BPD is actively involved with monitoring and managing AFRH contracts.
AFRH Records Management Program does not meet standards.	AFRH in coordination with National Archives and Records Administration (NARA) are developing records schedules for unique files of AFRH. A directive is in draft, which provides an AFRH Records Schedule.
Information security is not in compliance with requirements.	AFRH began identifying and correcting security and infrastructure problems long before the Inspection. With additional input from the IG, AFRH continued to move towards compliance by establishing a Security Program and Information Security Training Program. AFRH received security certification and accreditation for its Information Enterprise Network in September 2006.
Human Resources management is in compliance.	Overall, the IG found HR programs (most of which are franchised to BPD) were in compliance and did not cite any corrective actions. One area of strength was noted in that the new performance forms linked business objectives with performance standards.

Federal Financial Management Improvement Act (FFMIA)

FFMIA is designed to improve federal financial management by requiring that financial management systems provide reliable, consistent disclosure of financial data. This is in accordance with generally accepted accounting principles (GAAP) and standards. FFMIA requires AFRH to implement and maintain a financial management system that substantially complies with:

- Federal requirements for an integrated system
- Applicable Federal accounting standards
- US Standard General Ledger at the transaction level

2006 STATUS: AFRH is in substantial compliance with FFMIA requirements.

As we serve our Veterans with advanced care, the Home strives to be as efficient and economical as possible. We rely on the BPD's ARC division, which recently underwent an SAS70 audit* on its internal control activities and controls over information technology and related processes. The SAS70* is an internationally recognized auditing standard developed by the American Institute of Certified Public Accountants (AICPA), where an organization undergoes an in-depth audit of their control activities. The independent auditor report on activities from July 1, 2005 – June 30, 2006, along with tests of the operating environment, disclosed "no instances of noncompliance" required to be reported under Government Auditing Standards.

An examination of the accounting process, along with general computer controls provided by ARC, provided reasonable assurance that our controls would achieve their objectives in conjunction with Customer Agencies' internal controls.

The independent auditors' AFRH report provides reasonable assurance that our financial statements are free of material misstatement. Further, they noted no matters involving the internal control and its operation that they would consider to be material weaknesses. The two independent auditors reports confirm no material weaknesses in the AFRH internal control.

Financial Management Systems Framework

AFRH benefits from the public-to-public relationship that transferred its financial management to the BPD's ARC division. The Home uses the financial systems that ARC provides: Oracle Financials 11i, Oracle Assets, PRISM and WebTA. Payroll is through the National Finance Center. BPD personnel operate and maintain the system, ensuring top-notch support. Plus, they also developed and implemented several interfaces into Oracle Federal Financials to integrate key activities – such as e-payroll, procurement, purchase card, e-travel, Federal investments and Intragovernmental Payment and Collection System (IPAC) transactions. In FY06, per our request, BPD added Oracle Asset Manager to the Home's integrated suite of tools. Ultimately, BDP is responsible for the financial security and integrity of the system. In the PMA section above, the framework is illustrated in a chart.

Improper Payments Information Act (IPIA) is covered in Part 5: Accompanying Information

Resident Information System (RIS)

Another major achievement in 2006 has been the implementation of Monette – an integrated resident-focused software package. The modules rollout of this UltraCare application includes Admissions, Pre-Admissions, Clinical and Minimum Data Set (MDS) completed in September 2006.

*A Statement on Auditing Standards (SAS) No. 70, Service Organizations

The key to the Lincoln Cottage on the DC campus was once used by our 16th President. This artifact is on display in the AFRH Museum in the Sherman Building. Honestly.



The Mitigation of Risk

The National Defense Authorization Act for FY 2002 permitted us (via DoD) to sell, lease or otherwise dispose of underutilized buildings and property. So, AFRH launched its real estate Master Plan. This Plan forms the basis of our risk management strategy.

Washington Master Plan

This key endeavor will help us identify real property essential to the core mission of the AFRH. At the same time, it will help us identify non-critical facilities, target them for lease and establish a revenue stream for the future. Specifically, the lessee revenue will enable us to renovate our aging buildings and replenish the AFRH Trust Fund.

Master Plan Objectives:

- Preserve and improve the Home for the residents and the community
- Provide sufficient revenue that supports our goal of resident-focused care
- Replenish the partially depleted Trust Fund
- Grow the Trust Fund to meet the needs of today's residents and tomorrow's Veterans
- Attract development at fair market value that is compatible with our mission and
- Ensure an open, participatory process with residents and the community at large

A Temporary Halt

In 2005, we mothballed the Pipes building in order to lease it under the real estate Master Plan. Yet, the sudden displacement of Gulfport residents required us to reopen Pipes for temporary housing – and refurbish it throughout FY 2006. Recently, Pipes was closed again in September 2006, when the Gulfport residents were relocated to our Scott and Sheridan buildings.

Developing the Campus

Our vast DC campus is brimming with potential for development. It may include AFRH facilities, business offices, residential quarters, research and development facilities, medical related services, educational institutions, cultural organizations and even institutional and ancillary retail shops. Once we meet with all related community groups and select a developer, we will make the most prudent decisions and move forward.

Development Timeline

Keeping on target with its timeline throughout FY 2006, we continued to march forward. AFRH solicited a Request for Quote (RFQ) to potential developers for the Washington site in September 2005. In December 2005, 12 developers responded to the RFQ. In June 2006, AFRH selected three developers. On June 14, 2006, we concluded the RFQ process by announcing the selection of 3 development firms to be offered the chance to submit a final proposal for the AFRH redevelopment. The three firms were: Crescent, LLC, JBG and Clark Realty Capital, LLC.

Work began on the Environmental Impact Statement in July 2006. In August 2006, the Request for Proposal (RFP) was issued to the three developers, cited above. The current status and updates, including the RFP, are posted on the website at www.afrhdevelopment.com. The RFP developers' response date is November 2006. After the responses are received and evaluated, we will select a development partner(s) to proceed.



Gulfport Master Plan

After Hurricane Katrina forced the closure of AFRH-Gulfport, Congress requested we create strategies for the future of that campus. So, in a Special Report to Congress (dated February 28, 2006), one option was to construct a brand new residential complex. Fortunately for the Home, Congress appropriated funds for the construction of a new residential building in May 2006 (see Public Law 109-234 discussed above). And our residents and staff are forever grateful.

Moving forward, GSA is the agent for the design and construction and has already begun work. So far, GSA has appointed a program manager and has visited the Gulfport site three times since the above law was enacted. The next step is the appointment of a GSA onsite project manager. A Memorandum of Agreement (MOA) between GSA, AFRH and NAVFAC is being negotiated along with the requirements for the rebuild.



Above: design and construction of a new facility on the Gulfport campus is underway.

Left: the magnificent clock tower on our Washington campus proudly announces each hour with resonant chimes. So, there's no excuse for not finding the time to thrive.



"Coming here in August was one of the easiest moves I ever made. It's simpler ... with no stress of a house or car to maintain."

—Harvey Stackpole
(Ret. Army staff
Sergeant, E6 - 20 years)